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ELECTRONIC SYSTEMS

966 Commercial Street
Palo Alto, California
DAvenport 1-4175

February 24, 1960

REGISTERED - RETURN RECEIPT REQUESTED

STAT
TO:

Contracting Officer



Reference:

Contract SE-509

Subject:

Part VI - Price Redetermination

Gentlemen:

This letter summarizes our proposal for the establishment of the redetermined price for the equipment supplied under subject contract. After a review of our original cost summary (Exhibit I) and the results of your auditors' analysis (Exhibit II, pages 1 - 4), we propose as a final redetermined price for the total contract performance, an amount of \$71,279.01.

As a basis for arriving at the above price, we have used our revised cost summary (Exhibit III). The dollar difference in the original cost summary and the revised cost summary is a result of using different overhead rates. Our work on this contract was accomplished during two auditing periods. Using principles established in ASPR Section XV for CPFF type contracts, your auditor developed rates that are different from the actual rates used in the original cost summary. We recognize the use of ASPR cost principles as "guides" in establishing redetermined prices, but they are guides only, and there are really no "official cost principles" for determining allowability of costs for redetermined fixed price contracts. Therefore, we cannot concur with the disallowances proposed by your auditors. However, in the interest of moving our negotiations along, we are willing to accept the audited rates of 80.56% Burden and 15.95% G&A, established for the period 9/1/59 to 11/30/59, if your organization will be willing to accept the General Research Expense (experimental costs) as an allowable overhead charge in the period 4/1/59 to 8/31/59. If this suggestion is acceptable, the overhead rates for the first period would be Burden at 62.09% and G&A at 17.22%. The computation of these rates is shown in Exhibit IV.

Perhaps an explanation of our General Research Expense is in order to support its inclusion as an allowable overhead item. Our general research work is designated as a "Work Order" and costs are collected against work order numbers for control purposes. At the conclusion of the investigation, work orders are written off against an appropriate expense account. During the audit period in questions, two such work orders, No. 17 for \$1,658.49

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and No. 20 for \$4,266.70, were written off as current overhead expenses. Work Order No. 17 was an Investigation of Large Power Amplifier Cavities and Work Order No. 20 was for the Preliminary Investigation of Backscatter Design. In this work, basic concepts and techniques relating to backscatter communications and power cavities were investigated and developed.

As you know, practically all of our work is either directly or indirectly for the Government. The costs of our general research work were allocated to all contracts. The concepts and techniques developed as a result of this work were extensively used in and were basic to our Projects GA-73, "Operation Smokepuff" for a Stanford University Air Force contract; GA-85 and 85A, "Research on ARC-38 Modification and Field Operation," for the Office of Naval Research; and, GA-99, "Development of a 100 kw Amplifier" for ERCO under an Office of Naval Research contract. We feel the applications of the research results as described above clearly indicate the work was for the benefit of the Government; it was definitely related to our field of work and since it was a reasonable amount, should be included as an allowable indirect cost in our overhead.

We feel that the work covered by the above described work orders falls within the definitions of research and development work as specified in the proposed new ASPR 15-705.35 (a) and (c) and as such would qualify as an allowable cost under ASPR 15-205.35 (a) for CPFF contracts. Granted the new ASPR regulations quoted above are not mandatory as yet, however, their current use is optional. It seems logical that if the new ASPR regulations are to recognize reasonable General Research Expense as an allowable overhead item for CPFF contracts there should be no question about currently including the same expense as an allowable item for a fixed price contract.

The profit we have included in our proposed redetermined price is on the basis of the Type IV Price Redetermination formula which we discussed early in the negotiations on this contract. The profit computation is summarized below:

Total Contract Target Price		\$ 83,986.11
Item 1 - 2 ea Model 504	\$ 64,866.00	
Item 2 - 2 ea Spare Kits	18,560.00	
Item 3 - 1 ea Test Support Equipment	860.11	
Contract Target Cost	\$ 76,351.00	
Contract Target Profit @ 10%	7,635.11	83,986.11

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Contract Target Cost	\$ 76,351.00	
Actual Cost	<u>60,550.60</u>	
Savings	\$ 15,800.40	
Incentive Profit	3,160.08	(20% of difference between Target and Actual cost)

Amount Billable

Actual Cost	\$ 60,550.60
Target Profit	7,635.11
Incentive Profit	<u>3,160.08</u>
Total	\$ 71,345.79
LESS: Credit For Granger Purchase of materials from Residual	<u>66.78</u>
Net Billable	<u>\$ 71,279.01</u>

Summary of Billings to Date

Invoice No.	Invoice Date	Item	Amount
0314	10 Aug 1959	1 Model 504, Serial #70	\$ 32,433.00
0344	17 Nov 1959	1 Model 504, Serial #71	32,433.00
0346	23 Nov 1959	1 set Test Support Equip.	<u>560.11</u>
		Total Billed to Date	<u>\$ 65,426.11</u>
		Total Amount Claimed	\$ 71,345.79
		Less: Credit for Granger Purchase of Residual Material	<u>66.78</u>
		Net Amount Claimed	\$ 71,279.01
		Amount Billed to Date	<u>65,426.11</u>
		Net Amount Billable	<u>\$ 5,852.90</u>


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The residual materials remaining on hand at completion of the project are shown on Exhibit VI. We have purchased for our own account, and at acquisition cost, the items identified by the asterisk. The total of the items purchased are shown as a credit in arriving at the net amount billable on page 3.

In addition to the materials shown on the Residual List we also have on hand two Huggins Traveling Wave Tubes with acquisition costs of \$1,525.00 and \$3,400.00. As you will remember, these were ordered as spares for the first Model 504 we built for your organization and were subsequently transferred to the subject contract as G.F.E. We also have on hand the original Model 504 which was returned to us from the field. We will await your instructions for final disposition on all this material.

We hope the above information is sufficient to enable you to evaluate our proposal for the establishment of a final renegotiated price. If you have any questions, please do not hesitate to check with us.

Yours very truly,


Vice President and
Treasurer

RM:jb

Attachments: Exhibit I - Summary of Costs
Exhibit II - Auditor's Computation of Overhead & G&A (4 pages)
Exhibit III - Summary of Costs Claimed After Audit
Exhibit IV - Computation of Overhead Rates
Residual Material List

EXHIBIT I**GRANGER ASSOCIATES**
Palo Alto, California**Contract SE-509**
Project GA-77

		Summary of Costs				
		Item 1 2 ea Mod 504	Item 1 Pilot Control Box	Item 2 2 ea Spare Parts Kit	Item 2 Labor Spare Cir- cuit Bds	Item 3 Test Equip- ment
	<u>TOTAL</u>	<u>(GA-77)</u>	<u>(-77.4)</u>	<u>(-77.1)</u>	<u>(-77.2)</u>	<u>(-77.3)</u>
Period: 4/1/59 - 8/31/59						
Direct Labor	\$ 8,043.58	\$ 7,658.29		\$ 98.96	\$ 286.33	
Mfg O/H @ 63.5%	5,107.67	4,863.01		62.84	181.82	
Material & Purchased Parts	23,853.27	18,923.97		4,712.94	11.83	\$404.54
Other Direct	824.02	806.45		9.84		7.73
Total	\$37,828.54	\$32,051.72		\$4,884.58	\$ 479.97	\$412.27
G&A @ 17.4%	6,552.16	5,577.00		849.92	83.51	71.73
Total Cost for period	\$44,410.70	\$37,628.72		\$5,734.50	\$ 563.48	\$484.00
Period: 7/1/59-11/30/59						
Direct Labor	\$ 2,100.04	\$ 2,035.03	\$ 32.68	\$	\$	\$ 32.34
Mfg O/H @ 83.2%	1,747.24	1,693.14	27.19			26.91
Mat'l & Purch. Pts.	9,877.73	309.47 (1)		9,527.36(2)		40.90
Outside Services	7.00					7.00
Other Direct	416.54	412.91(3)		3.63(4)		
Total	\$14,148.55	\$ 4,450.54	\$ 59.87	\$9,530.99		\$107.15
G&A @ 16.1%	2,277.92	716.54	9.64	1,534.49		17.23
Total Cost for period	\$16,426.47	\$ 5,167.08	\$ 69.51	\$11,065.48		\$124.40
Total for Both Periods	\$60,837.17	\$42,795.80	\$ 69.51	\$16,799.98	\$ 563.48	\$608.40
		69.51	(69.51)	563.48	(563.48)	
Total	\$60,837.17	\$42,865.31		\$17,363.46		\$608.40
Overtime Premium	111.52	109.96				1.56
Total Cost	\$60,948.69	\$42,905.76		\$17,363.46		\$609.96
Target Cost	76,351.00					
Savings	\$15,402.31					
Incentive Profit @ 20%	3,080.46					
Amount Billable						
Cost	\$60,948.69					
Target Profit	7,635.11					
Incentive Profit	3,080.46					
Total Billable	\$71,664.26					

(1) Includes \$40.59 Purchase Commitments (2) Includes \$3,750.00 Purchase Commitments

(3) Includes \$61.88 Invoices from December Voucher Register

(4) Includes \$ 3.63 Invoices from December Voucher Register